

**CITY OF GARNAVILLO, IOWA
INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2015 THROUGH JUNE 30, 2016**

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Officials

Name	Title	Term Expires
Officials		
Mark Priebe	Mayor	December, 2019
Bob Bodish	Council Member	December, 2017
Lyndon Meyer	Council Member	December, 2017
Lanny Kuehl	Council Member	December, 2019
Jim Downey	Council Member	December, 2019
Bonnie Dietrich	Council Member	December, 2017
Denise Schneider (before July 1, 2016)	City Clerk/Treasurer	Indefinite
Elizabeth Jaster (effective July 1, 2016)	City Clerk/Treasurer	Indefinite

Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Honorable Mayor and
Members of the City Council
City of Garnavillo, Iowa

We have performed the procedures enumerated below which were established pursuant to Chapter 11.6 of the Code of Iowa enacted by the Iowa Legislature to provide oversight of certain Iowa cities. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Garnavillo for the period July 1, 2015 through June 30, 2016. The City of Garnavillo's management, which agreed to the performance of the procedures performed, is responsible for the City's records.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed are summarized as follows:

1. We reviewed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We reviewed the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We reviewed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and reviewed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.
5. We reviewed City funds for consistency with the City Finance Committee's (CFC) recommended uniform chart of accounts and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We reviewed the City's fiscal year 2015 Annual Financial Report (AFR) to determine whether it was completed and accurately reflects the City's financial information.

7. We reviewed investments to determine compliance with Chapter 12B of the Code of Iowa.
8. We reviewed compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa pertaining to required depository resolutions, investment policy and reporting of unclaimed property to the State of Iowa.
9. We reviewed debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. We reviewed and tested selected tax increment financing (TIF) transactions, including receipts, disbursements and transfers, for compliance and accurate accounting, including compliance with the TIF reporting requirements of Chapter 384.22 of the Code of Iowa.
11. We reviewed the City's TIF debt certification forms filed with the County Auditor, including requests for collection of reduced TIF amounts and to decertify certain TIF obligations, as applicable, for proper support and compliance with Chapter 403.19(6) of the Code of Iowa.
12. We reviewed and tested selected receipts for accurate accounting and consistency with the CFC recommended chart of accounts.
13. We reviewed voter approval levies for proper authorization in accordance with Chapter 384.12 of the Code of Iowa.
14. We reviewed and tested selected disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the CFC recommended chart of accounts and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
15. We reviewed transfers between funds for propriety, proper authorization and accurate accounting.
16. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
17. We reviewed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, we identified various recommendations for the City. Our recommendations are described in the Detailed Recommendations section of this report. Unless reported in the Detailed Recommendations, items of noncompliance were not noted during the performance of the specific procedures listed above.

To the Honorable Mayor and
Members of the City Council
City of Garnavillo, Iowa
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We were not engaged to and did not conduct an audit of the City of Garnavillo, the objective of which is the expression of opinions on the City's financial statements. Accordingly, we do not express opinions on the City's financial statements. Had we performed additional procedures, or had we performed an audit of the City of Garnavillo, additional matters might have come to our attention that would have been reported to you.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Garnavillo and other parties to whom the City of Garnavillo may report. This report is not intended to be and should not be used by anyone other than these specified parties.

HOGAN - HANSEN

HOGAN - HANSEN

Waterloo, Iowa
August 4, 2016

Detailed Recommendations

Detailed Recommendations

For the Period July 1, 2015 through June 30, 2016

(A) **Segregation of Duties** - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:

- Accounting system - performing all general accounting functions, including journal entries, and having custody of assets.
- Cash - handling, reconciling and recording.
- Investing - recordkeeping, investing, custody of investments and reconciling earnings.
- Receipts - opening mail, collecting, depositing, journalizing, reconciling and posting.
- Debt - recordkeeping and debt payment processing.
- Journal entries - preparing and journalizing.
- Disbursements - purchasing, invoice processing, check writing, mailing, reconciling and recording.
- Payroll - entering rates into the system, recordkeeping, preparing and distributing.
- Computer system - performing all general accounting functions and controlling all data input and output.
- Financial reporting - preparing and reconciling.

Recommendation - We realize segregation of duties is difficult with a limited number of employees. However, the City should review control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations, journal entries, timecards and payrolls should be evidenced by the signature or initials of the reviewer and the date of the review.

(B) **Accounting Policies and Procedures Manual** - The City does not have an accounting policies and procedures manual.

Recommendation - An accounting policies and procedures manual should be developed to provide the following benefits:

- (1) Aid in training additional or replacement staff.
- (2) Help achieve uniformity in accounting and in the application of policies and procedures.
- (3) Save supervisory time by recording decisions so they will not have to be made each time the same, or a similar, situation arises.

Detailed Recommendations

For the Period July 1, 2015 through June 30, 2016

- (C) **Payroll** - Payroll rates entered to the payroll software program are not reviewed and approved by someone independent of entering the rates.

Recommendation - When a new employee is added to the payroll or raises take effect, an independent person should review and approve the pay rates being entered into the payroll system.

- (D) **Financial Condition** - As of June 30, 2016, the City had deficit balances of \$40,556, \$85,860, \$69,173 and \$93,799 in the Urban Renewal, Debt Service, Capital Projects and Water Sinking Funds, respectively.

Recommendation - The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial position.

- (E) **Certified Budget** - Disbursements during the year ended June 30, 2016 exceeded the amount budgeted in the business-type activities function. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

- (F) **Council Minutes** - Chapter 372.13(6) of the Code of Iowa requires that the publication of City Council minutes include total disbursements from each fund and a summary of all receipts. Four of the four monthly minutes reviewed did not include a list of total disbursements by fund. In addition, two of four monthly minutes reviewed did not include a summary of all receipts.

Recommendation - The City should comply with the Code of Iowa and publish total disbursements from each fund and a summary of all receipts in the City Council minutes, as required.

- (G) **Internal Loan Payments** - The City had an internal loan from the General Fund to the TIF Fund. During the year, principal payments were made on the interfund loan in the amount of \$74,356. These payments were improperly recorded as interest payments.

Recommendation - The City should review its procedures to ensure that transactions are recorded to the proper accounts.

- (H) **Questionable Disbursement** - During the year, \$50 was donated to the Clayton Ridge Community School District post prom committee. This disbursement may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefit to be derived has not been clearly documented.

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation - The City Council should determine and document the public purpose served by this disbursement before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper public purpose documentation.